

June 30, 2004



Acquisition

Acquisition and Management of
Specialized Shipping and
Unit-Owned Containers and Related
Accessories
(D-2004-093)

Department of Defense
Office of the Inspector General

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Acronyms

AIDPMO	Army Intermodal and Distribution Platform Management Office
CMCI	Charleston Marine Containers, Incorporated
DLA	Defense Logistics Agency
DSCP	Defense Supply Center Philadelphia
FAR	Federal Acquisition Regulation
ISU	Internal Airlift or Helicopter Slingable Unit
LSA	Land, Sea, and Air
MCSC	Marine Corps Systems Command
SDDC	Surface Deployment and Distribution Command
NSN	National Stock Number
TACOM	Army Tank-automotive and Armaments Command
TOE	Table of Equipment



INSPECTOR GENERAL
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June 30, 2004

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Acquisition and Management of Specialized Shipping and Unit-Owned Containers and Related Accessories
(Report No. D-2004-093)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all issues be resolved promptly. The Army comments were responsive. The Air Force and the Defense Logistics Agency comments were partially responsive. Based on management comments, we revised Recommendations A.2.a., A.2.c., and B.1. We request that the Air Force provide additional comments on Recommendations A.2.a., A.2.b., A.2.c., and the potential monetary benefits. We request that the Defense Logistics Agency provide additional comments on Recommendations B.1. and B.4. The comments on the final report are required by July 30, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audcm@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Deborah L. Culp at (703) 604-9335 (DSN 664-9335) or Mr. Ronald W. Hodges at (703) 604-9592 (DSN 664-9592). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

David K. Steensma
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for Contract Management

Office of the Inspector General of the Department of Defense

Report No. D-2004-093

June 30, 2004

(Project No. D2002CH-0158)

Acquisition and Management of Specialized Shipping and Unit-Owned Containers and Related Accessories

Executive Summary

Who Should Read This Report and Why? DoD managers and other individuals interested in acquisition, management, and use of specialized shipping containers for deployment of supplies and equipment should read this report. The report discusses acquisition and management practices selected Services use for those containers.

Background. DoD needs to supply and equip the warfighter during conflicts, humanitarian assistance operations, or civil defense actions. Use of containers can help minimize loss, damage, and pilferage of cargo as well as reduce in-transit times. Although there are many types of containers, DoD generally refers to containers as common-use and specialized shipping containers. Unit-owned containers are specialized shipping containers that Service units manage. The most common types of unit-owned containers are Internal Airlift or Helicopter Slingable Unit containers, Quadruple containers, and Triple containers. The Defense Supply Center Philadelphia purchased and supplied specialized containers for Army and Air Force units, the Army Tank-automotive and Armaments Command acquired containers for some Army units, and the Marine Corps Systems Command acquired containers for its units. Between July 2001 and September 2002, the Defense Supply Center Philadelphia awarded contracts totaling \$176 million for specialized shipping containers and accessories. In May 1999, the Marine Corps awarded a \$68.5 million contract for unit-owned containers. The Army Tank-automotive and Armaments Command awarded a \$10.4 million contract for unit-owned containers in August 2001.

Results. The Army and the Air Force needed to improve controls over the acquisition and management of specialized shipping and unit-owned containers, whereas the Marine Corps has effectively acquired and managed its containers. The Army Tank-automotive and Armaments Command has successfully competed and awarded contracts for the containers, however, the Defense Supply Center Philadelphia needed to improve its contracting procedures for the containers.

The Army and the Air Force did not effectively acquire and manage unit-owned containers needed to meet the requirements for each unit. As a result, during an 18-month period ending March 31, 2003, Army and Air Force units spent \$49.6 million instead of \$15.3 million for unit-owned containers, or 224 percent more than necessary. Based on the management practices of the Army and the Air Force and the most recent prices paid for unit-owned containers, we calculate that over the next 6 years the Army and the Air Force could pay \$137.4 million more than necessary for unit-owned containers. In addition, the Army and the Air Force did not have accountability of their respective containerization programs. By establishing controls for acquiring and managing unit-owned containers, the Army and the Air Force would improve

management oversight and reduce overall cost for their container programs. Implementing procedures for collecting and analyzing data and establishing procedures for performing annual inventories would also provide accountability and effective management of containers. (For detailed recommendations, see finding A.)

The Defense Supply Center Philadelphia issued multiple award contracts for specialized shipping containers and accessories that circumvented both competition and the requirement for item evaluation. As a result, between July 2001 and March 2003, the Defense Supply Center Philadelphia awarded about \$73.4 million in sole-source delivery orders for specialized shipping containers and accessories without obtaining approval from the Senior Procurement Executive for the Defense Logistics Agency. The Defense Supply Center Philadelphia did not ensure that containerization needs of the Army and the Air Force were met or that DoD funds were spent efficiently. Obtaining justifications for other than full-and-open competition before exercising the options on the multiple award contracts or avoiding the use of multiple award contracts in sole-source situations, and discontinuing the use of commercial market acceptance as the criterion for item evaluation will ensure that future contracts meet Federal acquisition requirements. (For detailed recommendations, see finding B.)

Management Comments and Audit Response. The Army Director, Force Projection and Distribution agreed that there is a need for more efficient oversight and management of containers. The Army established the Army Intermodal and Distribution Platform Management Office to provide management controls of the Army containers. The Army is also developing policies and procedures for management, control, accountability, and reporting of containers. The Army planned to verify the cost avoidance calculation of \$87.8 million.

The Air Force Acting Deputy Chief of Staff for Installations and Logistics agreed to advise units of various types of containers managed by Defense Logistics Agency and to properly account for unit-owned containers. The Acting Deputy Chief also stated that the Air Force has decided to maintain its decentralized container program. The Air Force also did not fully concur with the cost avoidance of \$49.6 million. The Air Force comments were partially responsive, but they were not sufficient to correct all of the deficiencies identified in the report. We revised the recommendations to require reasonable assurance for effective and efficient acquisition and management of the Air Force containers. (See the Recommendations, Management Comments, and Audit Response section of finding A.)

The Defense Logistics Agency Deputy Director, Logistics Operations stated that the Agency has taken actions to eliminate a noncompetitive environment by awarding three additional multiple award schedule contracts. The Defense Logistics Agency comments were only partially responsive. Multiple award schedule contracting is not an appropriate contracting method for procuring specialized shipping containers that are available from sole-source vendors unless the multiple award schedule contract provides competition in contract awards or provides a fair opportunity to compete for delivery orders. The Defense Logistics Agency also needs to conduct market research more thoroughly to identify and incorporate customer needs in the solicitation.

We request that the Air Force and the Defense Logistics Agency provide additional comments on the final report by July 30, 2004.

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Background

This audit discusses the practices of selected Services for acquiring and managing unit-owned containers. The Marine Corps established a centralized program for unit-owned containers that acquired containers for units to transport and store unit equipment. Unlike the Marine Corps centralized program for unit-owned containers, the Army and the Air Force did not have centralized programs for unit-owned containers and placed the responsibilities for management and acquisition of the containers with the units.

DoD needs to supply and equip the warfighter during conflicts, humanitarian assistance operations, or civil defense actions. The U.S. Transportation Command, who is responsible for making sure that troops get supplies and equipment at locations all over the world, uses containers for ease and efficiency in shipping and storage. Use of containers can help minimize loss, damage, and pilferage of cargo as well as reduce in-transit times. Although there are many types of containers, DoD generally refers to containers as common-use and specialized shipping containers.

Common-use Containers. Common-use containers are DoD-owned, leased, or controlled 20- or 40-foot containers that are used to support transportation requirements of the Services. The U.S. Transportation Command, through the Surface Deployment and Distribution Command (SDDC), formerly Military Traffic Management Command, manages and controls common-use containers.

Specialized or Unit-Owned Containers. Specialized containers include unit-owned containers that the Military Services and their respective units procure and own. The most commonly used unit-owned containers are Internal Airlift or Helicopter Slingable Unit (ISU) containers, Quadruple containers (Quadcon), and Triple containers (Tricon). (Appendix B shows a comparison of the costs, dimensions, and capabilities of three types of unit-owned containers.)

AAR Mobility Systems, formerly AAR Cadillac Manufacturing, manufactures and sells ISU containers in various sizes, shapes, and configurations. ISU containers are lightweight containers constructed of balsa wood¹ with an aluminum coating (see the following picture).

¹Balsa wood is the material used to construct model airplanes.



ISU Container

Charleston Marine Containers, Incorporated (CMCI), manufactures and sells Quadcons and Tricons in standardized sizes and shapes. Quadcons and Tricons are durable steel containers (see pictures below). In addition, CMCI designed the Land, Sea, and Air (LSA) adapter² for Quadcons and Tricons as an alternative to the use of 463L pallets³ and chains during air transport.



Quadcon



Tricon

Units in the Army, the Air Force, and the Marine Corps use unit-owned containers to support rapid deployment and logistical requirements. Unit-owned containers have become critical in transporting warfighter equipment. Army and Air Force units individually acquire their unit-owned containers through the Defense Supply Center Philadelphia (DSCP). The Army Tank-automotive and

²The LSA adapter is a set of small, lightweight expandable steel legs that attach to the bottom of Quadcons. The adapter provides a rolling surface that works with military aircraft cargo systems.

³The 463L pallet is an aluminum flat base that facilitates the loading and off-loading of aircrafts. The 463L pallet is the method of shipment the Air Force authorizes for air deployments.

Armaments Command (TACOM) purchases unit-owned containers for some Army units, and the Marine Corps Systems Command (MCSC) purchases unit-owned containers for Marine Corps units.

Defense Supply Center Philadelphia. DSCP, a Defense Logistics Agency (DLA) field organization, provides supply support, contract management services, and technical and logistics services for DoD. Between July 2001 and September 2002, DSCP awarded four contracts that totaled \$176 million for specialized shipping containers and accessories. DSCP ensures assignment of National Stock Numbers (NSN) for each container and accessory. Each NSN has a unique 13-digit identification number.

Army Tank-automotive and Armaments Command. TACOM provides ground combat, automotive, marine, and armaments technologies and systems for the Army and other Services. Specifically, TACOM awarded a contract in August 2001 totaling \$10.4 million for unit-owned containers.

Marine Corps Systems Command. MCSC equips the Marine Corps with the means needed to accomplish their warfighting mission. Specifically, MCSC awarded a contract in May 1999 totaling \$68.5 million for unit-owned containers.

Objectives

Our overall audit objective was to determine whether DoD is paying fair and reasonable prices for sole-source specialized shipping containers and related accessories. We also evaluated DoD management and management controls of unit-owned containers and related accessories. See Appendix A for a discussion of the audit scope, methodology, management control program, and prior coverage.

A. Management of Unit-Owned Containers

The Marine Corps effectively acquired and managed unit-owned containers. However, the Army and the Air Force did not effectively acquire and manage unit-owned containers needed to meet the requirements for each unit. Army and Air Force management of unit-owned containers was ineffective.

- The Army did not have a centralized program for unit-owned containers designed to acquire and manage those containers that meet the requirements for each Army unit. Specifically, the Army neither implemented the SDDC-recommended use of Quaduple containers to satisfy basic unit deployment requirements nor collected and analyzed data on the effectiveness of containers Army units used for deployments and storage.
- The Air Force did not have a centralized program or controls for unit-owned containers designed to acquire and manage those containers that meet the requirements for each Air Force unit. Specifically, the Air Force neither identified the type and amount of unit-owned containers needed that would meet unit requirements nor collected and analyzed data on the effectiveness of containers Air Force units used for deployments and storage.
- The Army and the Air Force did not report unit-owned containers on property records or conduct inventories of those containers.

As a result, during an 18-month period ending March 31, 2003, Army and Air Force units spent \$49.6 million on accessorized ISU containers instead of \$15.3 million for unit-owned containers and accessories, or 224 percent more than necessary. In addition, the Army and the Air Force did not have adequate accountability of unit-owned containers and DoD could not determine the impact of the containers on either containerization and transportation programs. Based on the most recent prices paid for unit-owned containers, we calculate that over the next 6 years the Army and the Air Force could avoid costs of \$137.4 million for unit-owned containers by improving management practices.

Management of Unit-Owned Containers

The Army and the Air Force did not effectively acquire and manage unit-owned containers needed to meet unit container requirements. The Army and the Air Force assigned the responsibilities for acquisition and management of unit-owned containers to the individual units. Army and Air Force units purchased and used unit-owned containers, such as ISU containers, Quadcons, and Tricons, to move equipment and cargo. However, ISU containers cost more than both the Quadcons and the Tricons— \$8,000 and \$7,000, respectively— are less durable,

and require additional resources for sea and rail transport. When moved by sea or rail, ISU containers either require the use of a commercial 20-foot container that is certified for sea or rail transport, or must be enclosed in other types of commercial shipping equipment.

Marine Corps Management of Unit-Owned Containers. The Marine Corps used a centralized program for unit-owned containers that was designed to provide the level of support required for acquiring and managing those containers. Specifically, a centralized program aided the Marine Corps in defining the Quadcon as its required unit-owned container and established unit allowances for Quadcons within the Marine Corps Table of Equipment (TOE). Marine Corps units also retained responsibility for control and maintenance of the unit-owned containers. A centralized program for unit-owned containers allowed the Marine Corps to both identify and quantify unit-owned container requirements as well as oversee the impact of its unit-owned container assets on DoD containerization and transportation programs.

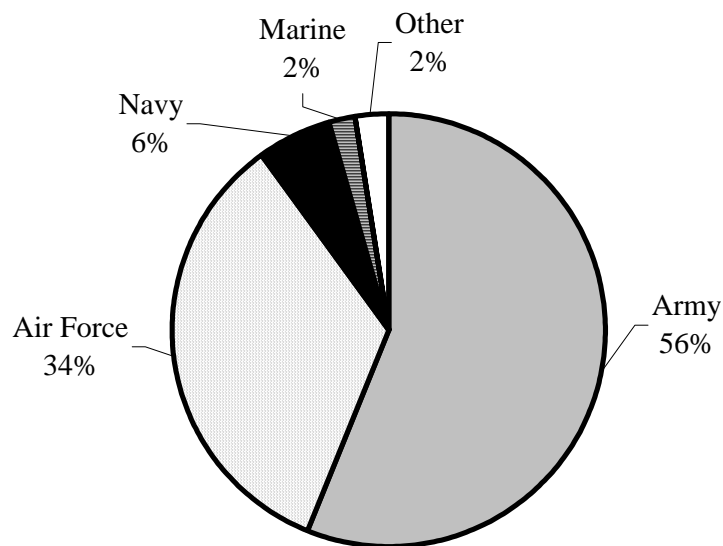
Army Management of Unit-Owned Containers

The Army did not have a centralized program for unit-owned containers that was designed to acquire and manage those containers that meet the requirements for each Army unit similar to the program used by the Marine Corps. Specifically, the Army neither implemented the SDDC recommendation for using Quadcons for meeting basic unit deployment requirements nor established allowances for unit-owned containers on Army TOEs. In addition, the Army did not collect or analyze any data on the effectiveness of unit-owned containers that Army units used for deployments and storage. As a result, DoD and Army management could not determine the impact of unit-owned containers on DoD containerization and transportation programs.

SDDC-Recommended Unit-Owned Container Requirements. The Army did not implement the SDDC recommendation for using Quadcons to meet unit deployment requirements. Instead, the Army gave individual units the responsibility of determining their own requirements for unit-owned containers. Following Operations Desert Storm and Desert Shield, the Army identified problems with its units determining their own requirements for unit-owned containers. For example, each time the leadership of a unit changed, container requirements for the unit would likely change.

In the 1990s, both Army Forces Command and SDDC performed studies to assist units in determining and reducing container requirements. The U.S. Transportation Command sponsored study, “Turbo Intermodal Surge 95,” March 1996, evaluated the effectiveness of Quadcons for unit deployments and recommends that “the Army expand its procurement of Quadcons for TOE units.” In a 1998 memorandum, the Army’s Deputy Chief of Staff for Logistics states, “the Quadcon is the container selected by the Army to replace the proliferation of current nonstandard containers and fabricated storage aids throughout the force.”

Based on the SDDC Transportation Engineering Activity Pamphlet 700-5, “A Deployment Planning Guide,” May 2001, we calculated that deploying Army units needed about 109,000 Quadcons to meet their basic requirements for containerization. However, in an 18-month period ending March 31, 2003, the Army spent about \$31 million acquiring ISU containers and container accessories instead of about \$9 million acquiring Quadcons, or about \$22 million more than necessary. The \$31 million that the Army spent on ISU containers and container accessories represents 56 percent of the ISU containers purchased throughout the Services and other DoD Components along with Federal agencies (see Figure below).



Percentage of ISU Containers and Container Accessories Purchased From October 2002 to March 2003

The Army should use the SDDC recommendation as a basis for establishing Army unit TOE allowances for unit-owned containers and adjust the allowances when necessary.

Unit-Owned Containers for Air Deployment. The Army did not collect or analyze data on the effectiveness of unit-owned containers used for unit deployments and storage. For example, the Army did not identify the need to modify the design of Quadcons for air deployments or collect data on the durability and the functional uses of unit-owned containers. Of the 18 Army units reviewed, 17 used ISU containers instead of Quadcons because of the airlift capabilities of ISU containers. In addition, Army Forces Command Regulation 55-1, “Transportation and Travel Unit Movement Planning,” March 1, 2000, Appendix L recommends ISU containers for air deployments and Quadcons for land and sea deployments.

Development of the LSA Adapter. The Army did not identify the need for modifying the design of Quadcons to interface with military aircraft cargo systems. In addition, Army units were not aware of the availability of the LSA adapter. CMCI stated that it began developing the LSA adapter after finding out that Army personnel had difficulty using Quadcons for air deployments during Operation Enduring Freedom. For air deployments, Army units stated that Quadcon use was costly, labor intensive, and inconvenient because Quadcons required 463L pallets and tie-down chains. A Quadcon deployed using a 463L pallet and tie-down chains costs about \$2,300, plus the cost of the time to secure containers to the 463L pallet. The picture below shows a Quadcon secured on a 463L pallet.



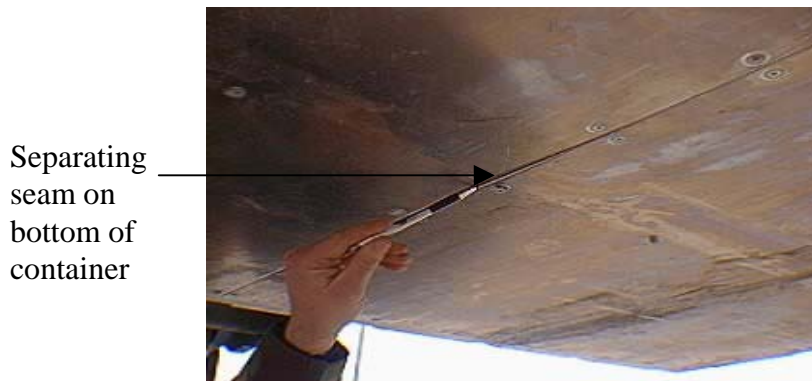
Quadcon secured on a 463L pallet

LSA Adapter Benefits. A Quadcon deployed using the LSA adapter instead of 463L pallets and tie-down chains provides a cost savings of about \$1,500 per unit as well as a reduction in time to load the container on an aircraft. Quadcons using LSA adapters for air deployments cost less than ISU containers. Although the LSA adapter provides a cost savings to the Army and the Air Force, CMCI stated that it developed and tested the LSA adapter without significant help from the Army or the Air Force. The Air Force approved the LSA adapter in November 2002 after reviewing test reports from a foreign government. However, Army units at Fort Bragg, North Carolina, contacted in May 2003 were not aware that the LSA adapter was available for use with the Quadcons for air deployments.

Durability of and Uses for Unit-Owned Containers. The Army did not collect data on either the durability of or functional uses for containers that could be used to assess the cost effectiveness of the unit-owned container program. Although ISU containers cost about \$8,000 more than Quadcons, ISU containers are not as durable as the Quadcons and present significant impediments to efficient transport over sea and rail. While ISU containers are made of lightweight aluminum and balsa wood to facilitate air shipment, Quadcons are made of steel.

Army units stated that they need durable unit-owned containers because they use the containers daily in either the field or in combat areas. Army units also frequently move their unit-owned containers from one location to another. Furthermore, Army units stated that ISU containers used in the field tend to damage easily. Containers in the field require placement on a smooth surface or on wooden blocks referred to as dunnage. Placing the containers on blocks prevents damage to the bottom of the container. Units also stated that a forklift could easily penetrate the exterior of ISU containers, which can expose the balsa wood lining. If exposed to moisture, the balsa lining can expand and become damaged.

The picture below shows an ISU container less than 1 year old that Air Force loadmasters rejected for air deployment because of the separating seams on the bottom of the container. Air Force loadmasters also rejected ISU containers with damages, such as holes, on any exterior surface of the containers.



Bottom of Damaged ISU Container

Despite concerns about the durability of ISU containers, Army units did not maintain either records of repairs or information on the replacement rate of damaged ISU containers.

Although the Quadcon containers are more durable and cost less than ISU containers, Army units continued using the ISU containers for storage or surface movement. For example, in an 18-month period ending March 2003, Army units in Korea spent approximately \$0.7 million on 82 ISU containers. We did not visit Army units in Korea, but we conclude that units in Korea use ISU containers for storage or surface movement instead of air deployments because few, if any, air deployments take place from Korea.

The Army needs to establish a centralized program for unit-owned containers that is similar to the program used by the Marine Corps that would:

- use the SDDC recommendation as a basis for establishing allowances for unit-owned containers on unit TOEs, and

-
- collect and analyze data about containers that could determine the effectiveness of unit-owned containers in satisfying unit requirements.

The centralized program for unit-owned containers should have procedures to collect data on the durability of and functional uses for containers and to assess the cost effectiveness of containers Army units use for deployments and storage.

Air Force Management of Unit-Owned Containers

The Air Force did not have a centralized program for unit-owned containers that was similar to the program used by the Marine Corps and that was designed to acquire and manage those containers in a way that meets the requirements for each Air Force unit. The Air Force neither identified the type or the quantity of unit-owned containers needed for meeting its unit requirements nor specified quantity allowances for unit-owned containers on Air Force TOEs. In addition, the Air Force did not collect and analyze any data on the effectiveness of unit-owned containers that Air Force units used. More importantly, Air Force management could not determine the impact on DoD containerization and transportation programs.

Air Force Unit-Owned Container Requirements. The Air Force neither identified nor developed cost-effective unit-owned containers that met user needs. From October 2001 to March 2003, Air Force units spent about \$18.6 million for ISU containers they purchased through DSCP instead of about \$6.2 million for Quadcons, or about \$12.4 million more than necessary. Although the Air Force did not have a centralized program that identified and managed unit-owned container requirements, of the 35 Air Force units reviewed 34 used ISU containers and preferred ISU containers to the 463L pallets. In addition, none of the 35 units reviewed were aware of Quadcons or Tricons.

Air Force units contended that a need for containerization of cargo exists, particularly for support and maintenance units that use the containers to store repair parts, tools, and other equipment. Air Force units also stated that for deployment, the ISU containers are more suitable than the 463L pallets because containers provide better security and protection from environmental elements. Containers also make packing and unpacking equipment easier. Based on the reasons given for using ISU containers, the Quadcon and the Tricon with an LSA adapter also meet the Air Force need for deployable unit-owned containers.

Air Force Bare Base Program. The Air Force did not collect or analyze data on the effectiveness of containers that Air Force units used for deployments and storage. For example, the Air Force did not satisfy unit-owned container requirements for bare base⁴ programs using the most cost-effective method. Harvest Eagle is an Air Force bare base program that sets bases up to support military personnel with necessities such as billeting, kitchens, showers, and

⁴ Bare base is essentially a “base in a box,” which contains everything that is needed to set up an air base (from scratch) to support a specified number of personnel. A “base in a box” does not include consumable supplies.

latrines. One Harvest Eagle set supports 550 personnel and requires 13,965 cubic feet of cargo space, or 35 ISU containers, at a total cost of about \$340,000.

If the Air Force were to identify and analyze data on unit-owned container requirements similar to the process used by the Marine Corps, and acquire Tricons instead of ISU containers, we calculate that the Air Force would save about \$222,000 for each Harvest Eagle set of unit-owned containers.

The Air Force needs to establish a centralized program for unit-owned containers similar to that of the Marine Corps, which has demonstrated effective management of unit-owned containers or establish controls over its existing container program. The controls should ensure that units make best value determination on container acquisition; facilitate transfer of idle and excess containers to potential users; collect data on the durability and functional usage of unit-owned containers; assess the effectiveness of unit-owned containers for deployment or storage requirements; and coordinate with item managers to acquire the most effective containers based on the defined requirements.

Accountability of Unit-Owned Containers

The Army and the Air Force did not report unit-owned containers on property records or conduct inventories of those containers. That lack of accountability occurred primarily because the Army and the Air Force did not have a centralized program that would either account for unit-owned containers or perform annual inventories similar to those the Marine Corps performs. In addition, ISU containers did not have proper accounting codes, and the Army and the Air Force did not comply with DoD Instruction 5000.64, "Defense Property Accountability," August 13, 2002. As a result, the Army and the Air Force did not have oversight of the quantity of unit-owned containers that were on-hand, the readiness conditions of the containers, or the percentage of unit-owned containers used to containerize unit equipment. The Army and the Air Force could also not determine the impact of the use of unit-owned containers on DoD containerization and transportation programs.

Marine Corps Unit-Owned Container Accountability. The Marine Corps accounts for unit-owned containers at the major command level. Specifically, MCSC obtained serial numbers from SDDC for each Quadcon and provided delivery orders to an inventory manager. The inventory manager maintained a database of serialized unit-owned containers, updated the database for each delivery order received from MCSC, and performed an annual inventory. When conducting annual inventories, the inventory manager compared the quantity of unit-owned containers reported as on hand to the total quantity of unit-owned containers received based on delivery orders plus the quantity of unit-owned containers reported as on hand from the previous year. The Marine Corps used counts from each annual inventory to establish allowances that could identify a shortage or an excess of unit-owned containers within Marine Corps commands. The process that the Marine Corps used provided the Marine Corps with visibility of both the quantity and the use of unit-owned containers.

Army and Air Force Unit-Owned Container Accountability. The Army and the Air Force did not account for unit-owned containers. The Army identified container accountability problems in the early 1990s and initiated steps that would improve accountability. Our review in 2003 revealed, however, that both Army and Air Force accountability problems of unit-owned containers remain unresolved.

The Army and the Air Force both assigned procurement and accounting responsibilities for unit-owned containers to Army and Air Force units. Army and Air Force units purchased containers through DSCP. The Army and the Air Force did not obtain serial numbers for ISU containers from SDDC, which would have facilitated accountability, because ISU containers do not have the International Organization for Standardization certification and do not require serial numbers.

The Army and the Air Force did not have a centralized program for maintaining an inventory database for unit-owned containers. In addition, the Army and the Air Force did not account for ISU containers on property book records because the expendable property accounting code assigned to ISU containers was incorrect. As a result, 16 of 18 Army units and 31 of 35 Air Force units that we reviewed did not account for unit-owned containers on records in accordance with applicable DoD regulations.

DoD Guidance. The Army and the Air Force did not comply with DoD Instruction 5000.64 when accounting for ISU containers. DoD Instruction 5000.64 requires that property records for property with an acquisition cost of \$5,000 or more are established. The Army did not comply with DoD Instruction 5000.64 because the Army did not implement that instruction in its policies and procedures for property accountability. The Air Force policies and procedures for property accountability were ambiguous because the policies did not specify that Air Force units should report any property that costs more than \$2,500 or nonexpendable property that costs more than \$2,500. As a result, Army and Air Force units did not establish or maintain property records for ISU containers which cost more than \$5,000. The Army and the Air Force also did not have a basis for determining the quantity and conditions of unit-owned containers that were either on-hand or in use. Not being able to determine the quantity and conditions of unit-owned containers either on-hand or in-use is an impediment to effective asset management of unit-owned containers in terms of procurement, utilization, transfer, and deployment planning.

The Army and the Air Force should establish a centralized program or controls that ensure that their units account for unit-owned containers on property records.

Ongoing Army Actions

For obtaining proper management of Army intermodal assets, the Army established on June 3, 2003, the Army Intermodal and Distribution Platform Management Office (AIDPMO). AIDPMO is the Army's single manager for Army-owned International Organization for Standardization containers.

AIDPMO manages inventory accountability and readiness conditions for all of the Army-owned International Organization for Standardization containers. AIDPMO is working with procurement organizations to define and establish procedures for container purchases, accountability, and inventory requirements. However, the management responsibilities for AIDPMO do not include unit-owned containers. AIDPMO expects that in the future they will address management of unit-owned containers. Army is also in the process of incorporating DoD Instruction 5000.64 guidelines into existing guidance and reducing to \$2,500 the threshold for property accountability.

Conclusion

The Army and the Air Force should adopt the concept of a centralized program for unit-owned containers that is similar to the program used by the Marine Corps and that identifies acquisition requirements for unit-owned containers, distributes the containers to unit, and maintains property records of the unit-owned containers. Although the centralized program should involve procurement and distribution functions, the units should be responsible for accountability and day-to-day management. A centralized program similar to the program used by the Marine Corps for unit-owned containers would ensure that units have the containers they need to meet mission requirements; that units are restricted from procuring containers beyond their mission requirements; and that units regularly inventory their unit-owned containers and report on any losses, damages, or dispositions. A centralized program would also aid senior officials in making decisions about the acquisition of containers.

If the Army and the Air Force do not adopt a centralized program for unit-owned containers similar to the program used by the Marine Corps, controls need to be established to improve their units existing methods of acquiring, managing and accounting for unit-owned containers. The controls should include procedures and techniques that identify, collect, and analyze data on the durability and functional uses of unit-owned containers, which is needed to develop cost-effective containers that meet the user needs. The controls also should provide management oversight of unit-owned containers to ensure proper accountability and effective use of unit-owned containers.

By establishing a centralized program or controls for unit-owned containers, the Army and the Air Force would reduce, by about \$137.4 million, the overall cost for the unit-owned containers as well as improve management oversight. Specifically, if the Army and the Air Force purchased Quadcons instead of ISU containers, we calculate a cost savings of about \$87.8 million to the Army and about \$49.6 million to the Air Force over the next 6 years. See Appendix C for the calculation of the Army and the Air Force potential cost savings.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised draft Recommendations A.2.a. and A.2.c. to address the need for the Air Force to incorporate effective controls into the decentralized container program.

A.1. We recommend that the Army Deputy Chief of Staff for Logistics:

a. Establish a centralized program similar to the Marine Corps for acquiring and managing unit-owned containers.

Management Comments. The Director, Force Projection and Distribution concurred in principle that the Army needs to strengthen its oversight and controls over acquisition and management of containers. To provide management control for the Army containers, the Army established the AIDPMO in June 2003. The Army G-4 is currently collaborating with the AIDPMO and major commands and will, within the next 24 months, determine management procedures for unit-owned containers. The AIDPMO will also review resource requirements associated with the centralized management and control of the ISU containers.

b. Use as a basis for establishing allowances for Army units the quadruple container requirements that the Surface Deployment and Distribution Command recommends.

Management Comments. The Director, Force Projection and Distribution nonconcurred and stated that the Army G-4 makes policy and recommendations to the major commands and does not direct to the units the container requirements or types because units are built by force structure. The major commands control the container requirement allowances of their units. The Army G-4 is reviewing the recommendation made by the Surface Deployment and Distribution Command and the use of Quadcons and Tricons at unit levels.

Audit Response. The Army comments are responsive. Although the Army did not concur, we consider that the actions taken by the Army G-4 satisfy the intent of the recommendation to reinforce controls in establishing container requirement allowances.

c. Establish and implement procedures for collecting and analyzing data that will determine the effectiveness of containers used in the Army's centralized program for unit-owned containers.

Management Comments. The Director, Force Projection and Distribution concurred and stated that the AIDPMO will review and establish implementing procedures for inventorying, collecting, and analyzing data to determine the requirements and effectiveness of the containers used by Army units. Policies and procedures for management, control, accountability, and reporting of assets are being developed and will be published in the revised Army Regulations 56-4 and 735.5. Projected completion date is December 30, 2004.

d. Establish procedures requiring that the Army conduct annual inventories of unit-owned containers as well as properly account for unit-owned containers on property records.

Management Comments. The Director, Force Projection and Distribution nonconcurred, stating that all unit-owned containers will be inventoried every 2 years in accordance with Army Regulation 735.5. The Army is in the process of reviewing and developing policy and procedures to incorporate guidance on property accountability that will reduce the threshold to \$2,500. The directives will be issued by September 30, 2004.

Audit Response. The Army comments are responsive. Although the Army did not concur, we consider that the Army comments meet the intent of the recommendation. We agree that the revised guidance, coupled with biennial inventory, will ensure that all of the Army unit-owned containers are accounted for on property records.

A.2. We recommend that the Air Force Deputy Chief of Staff for Installations and Logistics:

a. Establish controls over the container program to ensure that units make best value determination on container procurements, document the justification of container selection, and facilitate transfer of idle and excess containers to potential users.

Management Comments. The Acting Deputy Chief of Staff for Installations and Logistics nonconcurred and stated that the Air Force will continue to manage shipping containers at the unit level. Units are in the best position to plan, program, and budget their requirements, and the Air Force has policies and procedures in place for units to requisition containers directly from DLA using Operation and Maintenance funds. The Air Force transitioned from a centralized management program for shipping containers to a decentralized program in the late 1990s.

Audit Response. We consider the Air Force comments only partially responsive. The Acting Deputy Chief of Staff for Installations and Logistics stated that the Air Force will maintain the decentralized container program without addressing the deficiencies we identified in the Air Force unit-owned container program as follows:

The Air Force container program did not provide for units to make best value determination on container procurements. Air Force units were not aware of other containers comparable but less expensive than ISU containers. This resulted in purchases of several hundred ISU containers for Bare Base Programs at an Air Force Base though the needs could have been satisfied by purchasing Quadcons or Tricons at less cost. Also, Air Force units were basing selection of their containers merely on word of mouth, to the extent that units engaging mostly in surface or sea transport were procuring containers designed for air-movement and paying for unnecessary capabilities such as helicopter slingability. We also identified that the Air Force needs to identify excess or idle containers and identify potential users for those containers.

Our initial recommendation for resolving the deficiencies was to have the Air Force benchmark the Marine Corps centralized container program that has demonstrated a cost-effective container program. The Air Force did not consider a centralized container program as an option because of a previous centralized program experience. Although Air Force reasoning for a decentralized container program seems valid, the Air Force still needs to seek a way of minimizing, if not eliminating, the identified deficiencies while sustaining its existing program. We request that the Air Force provide comments on the revised recommendation.

b. Identify the type of unit-owned containers that meet unit requirements.

Management Comments. The Acting Deputy Chief of Staff for Installations and Logistics concurred and stated that Air Force units fully understand their shipping container requirements as they pertain to their operational mission plans. To ensure units are aware of other various types of shipping containers, the Air Staff will advise major commands of the availability of other less expensive shipping containers managed by the DLA.

Audit Response. The Air Force comments are partially responsive. The Air Force solution will provide for units to select the best value container in light of their mission needs among readily available containers in the market. However, Air Force units cannot use commercial containers for air deployments unless the containers are certified for use on the Air Force cargo plane in accordance with Air Force Regulation 80-18, "Research and Development, DoD Engineering for Transportability." The Air Force technical experts need to test special requirements identified in the regulation and coordinate with requiring, procuring, and contracting activities on the procurement of containers that will satisfy the special requirements. We request that the Air Force provide additional comments on the recommendation.

c. Establish controls that ensure Air Force units collect data on the durability and functional usage of unit-owned containers, assess the effectiveness of the containers, and coordinate with item managers to acquire most effective containers based on deployment or storage requirements.

Management Comments. The Acting Deputy Chief of Staff for Installations and Logistics nonconcurred indicating that the Air Force maintains a decentralized container program. The Air Force had procedures in place to facilitate coordination between Air Force units and DLA on issues regarding product effectiveness, and the DSCP, as the managing office, has the resources to collect and analyze data on product effectiveness.

Audit Response. The Air Force comments are partially responsive. The stated procedures are not operating as intended by the Air Force. Air Force units we visited did not report data on repairs or replacement rates of ISU containers although units had concerns and issues regarding durability or functionality of the containers. However, based on Air Force management comments, we revised our recommendation to ensure that Air Force units assess the effectiveness of unit-owned containers and coordinate with item managers to acquire most effective

containers based on deployment or storage requirements. We request that the Air Force provide comments on the revised recommendation.

d. Establish procedures requiring that the Air Force conduct annual inventories of unit-owned containers as well as properly account for unit-owned containers on property records.

Management Comments. The Acting Deputy Chief of Staff for Installations and Logistics concurred and stated that the Air Staff will advise units to account for ISU containers within the Air Force Equipment Management System in accordance with DoD Regulations. Furthermore, there are existing procedures that address the need for an inventory of containers.

Management Comments on the Potential Cost Avoidance

Army Comments. The Director, Force Projection and Distribution commented that the Army is unable to predict the quantity of containers that will be purchased in the future; however, the potential cost avoidance could be in the millions over the next 6 years, based on the quantity of containers purchased in an 18-month period. The AIDPMO will verify the cost avoidance calculation with the Army Cost and Economic Analysis Center.

Air Force Comments. The Acting Deputy Chief of Staff for Installations and Logistics stated that the base line for quantities ordered over the 18-month period was exceptionally high due to the surge in war planning requirements, and is not the anticipated amount of requirements over the next 6 years. The Air Force Deputy Chief of Staff for Installations and Logistics also stated that the formula used for calculation equates to a one-for-one replacement of the ISU container with the Quadcon container, and our calculation did not take into consideration such factors as tare weight, load capacity, off- and on-load maneuverability, payloads, delivery times, and shipping means. The Air Force stated that cost savings would be about \$4.9 million over the next 6 years, as opposed to \$49.6 million we calculated.

Audit Response. We do not agree with the Air Force Acting Deputy Chief of Staff for Installations and Logistics that the cost avoidance of \$49.6 million did not consider the issues that the Air Force mentioned above. The containers purchased during the 18-month period represent recent container purchases and the best available information to establish base line quantities. If the Air Force continues to purchase at the same rate, then the potential cost avoidance would be about \$49.6 million.

Also, the formula we used for calculation did not equate to a one-for-one replacement of ISU containers with Quadcons. Instead, the formula equated to almost two Quadcons per ISU container, resulting from comparison of the cubic feet of the two containers. We used the cubic feet as a calculation basis because Air Force loadmasters at Pope Air Force Base stated that units generally maximize the space before maximizing the weight. We also factored tare weight, load capacity, off- and on-load maneuverability, payloads, delivery times, and

shipping means in recommending Quadcons or Tricons in place of ISU containers. Both Quadcons and Tricons had acceptable off- and on-load capabilities and were intermodal containers designed for air, surface, and sealifts. Therefore, Quadcons and Tricons are cost-effective replacements or substitutes for ISU containers.

We were informed that the Air Force has a potential 3-year requirement for about 6,000 containers and has requisitioned 21 Tricons against the TACOM contract. If the Air Force satisfies the requirement with Tricons, this requirement alone will save the Air Force about \$33.9 million over the 3-year period, and, accordingly, potential savings for a 6-year period could be as much as \$67.8 million, as opposed to \$4.9 million that the Air Force calculated. We request that the Air Force reconsider its position on the potential cost avoidance.

B. Acquisition of Specialized Shipping Containers and Accessories

MCSC and TACOM have successfully competed and awarded contracts for their specialized shipping containers. However, DSCP issued multiple award contracts for specialized shipping containers and accessories that circumvented both competition and the requirement for item evaluation. The condition occurred because DSCP restricted awards to contractors with unique product lines when awarding contracts with estimated 5-year values of about \$176 million. In addition, DSCP incorrectly used the availability of an item in the commercial market as the criterion for evaluating whether specialized shipping containers and accessories would meet the needs of both the Army and the Air Force. As a result, DSCP awarded between July 2001 and March 2003 about \$73.4 million in sole-source delivery orders for specialized shipping containers and accessories without obtaining approval from the Senior Procurement Executive for the Defense Logistics Agency. DSCP did not ensure that containerization needs of the Army and the Air Force were met or that DoD funds were spent as efficiently as MCSC and TACOM funds.

Issuing Multiple Awards

DSCP circumvented both competition and the requirement for item evaluation between July 2001 and September 2002 when they issued four multiple award contracts for specialized shipping containers. DSCP awarded the four contracts for entire commercial catalogs without competition based on commercial item descriptions. DSCP awarded four 2-year contracts each with three 1-year options for about \$176 million and referred to the contracts as “Customer Value Contracts.” DSCP awarded the first contract to AAR Mobility Systems in July 2001 but did not award the second contract to CMCI until 6 months later in January 2002. DSCP awarded in February 2002 and September 2002, respectively, the final two contracts to Wel-Fab, Incorporated, and Boh Environmental, LLC. The following table identifies award amounts and delivery order values for each of the four contracts.

Estimated Contract Values and Delivery Order Values (in millions)					
<u>Contractor</u>	<u>Award Date</u>	Estimated Contract Values (5 year)	<u>Delivery Order Values</u>		
			<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u> (October through March)
AAR Mobility Systems	July 2, 2001	\$135.0	\$12.1	\$34.5	\$16.9
CMCI	Jan. 16, 2002	20.0	-	1.1 ¹	1.5
Wel-Fab, Incorporated	Feb. 26, 2002	5.0	-	.4 ²	.5
Boh Environmental, LLC	Sept. 5, 2002	<u>16.0</u>	<u>-</u>	<u>3.3</u>	<u>3.1</u>
Totals		\$176.0	\$12.1	\$39.3	\$22.0

¹DSCP did not issue a delivery order until March 2002.
²DSCP did not issue a delivery order until April 2002.

Restricting Competition in Multiple Award Acquisitions

DSCP improperly issued multiple award contracts to contractors who had a unique product line. DSCP awarded four sole-source contracts without competition using multiple award procedures and did not seek competition for subsequent delivery orders because each contractor's unique product lines was assigned a different NSN. Based on the Federal Acquisition Regulation (FAR), DSCP must obtain approval to award sole-source contracts and should not use multiple awards in situations that will result in sole-source delivery orders. MCSC and TACOM successfully competed awards for specialized shipping containers by comparing contractor proposals during the source selection process.

Creating a Sole-Source Situation. Although customary during source selection for competitive acquisitions, DSCP did not compare contractor proposals against one another. Instead, DSCP performed a price analysis on each proposal by comparing the commercial catalog price for individual NSNs with the proposed price to determine price reasonableness. In a price analysis dated May 9, 2001, DSCP states that AAR Mobility Systems is a sole-source provider for the NSNs in its proposal. Each of the four contractors was in fact a sole-source provider for the NSNs in their commercial catalogs because each contractor offered a unique product line. DSCP improperly used the multiple award process and did not achieve full-and-open competition, as FAR Part 6, "Contracting Requirements," requires because they did not allow duplication of product lines. DSCP ultimately awarded about \$176 million in sole-source contracts without obtaining from the senior procurement executive of the agency justification for other than full-and-open competition. The Under Secretary of Defense for Acquisition, Technology, and Logistics delegated in June 1991 the authority to approve justifications for other than full-and-open competition to the Defense Logistics Agency. Accordingly, DSCP should have obtained approval to award sole-source contracts from the Senior Procurement Executive of the Defense Logistics Agency as the Defense Logistics Agency Directive 6.304(a)(4)(A)(1)(90), "Approval of the Justification," instructs:

Justifications requiring approval by the Senior Procurement Executive . . . shall be forwarded to DLSC-PO [Defense Logistics Support Command-Procurement Office] by a letter of transmittal signed by the Commander of the activity requesting approval . . .

Issuing Sole-Source Delivery Orders. DSCP was unable to initiate competition throughout the contract period of performance because similar products were not identified during the initial award process. Although FAR Part 16, “Types of Contracts,” does create a preference for multiple awards, DSCP improperly created a sole-source situation. FAR 16.504(c)(ii)(A), “Multiple Award Preference,” states:

The contracting officer must determine whether multiple awards are appropriate as part of acquisition planning. The contracting officer must avoid situations in which awardees specialize exclusively in one or a few areas within the statement of work, thus creating the likelihood that orders in those areas will be awarded on a sole-source basis . . .

In addition, DSCP did not allow for a fair opportunity for each awardee when the Army and the Air Force submitted requisitions that identified an NSN because DSCP awarded delivery orders for the contract with that specific NSN. FAR 16.505(b)(1), “Fair Opportunity,” requires that contracting officers “. . . provide each awardee a fair opportunity to be considered for each order exceeding \$2,500 issued under multiple delivery-order contracts . . .” AAR Mobility Systems received \$63.5 million, or 87 percent of the \$73.4 million in delivery orders issued between July 2001 and March 2003. DSCP was unable to compete delivery orders from July 2, 2001, through January 15, 2002, because only one contract existed. During that 6-month period, DSCP issued 920 sole-source delivery orders totaling \$24.3 million to AAR Mobility Systems. When using multiple award procedures, DSCP should avoid creating sole-source situations and restricting fair opportunity for awards.

MCSC Competitive Acquisition. MCSC successfully competed and awarded in May 1999, a \$68.5-million contract for one type of specialized shipping container. MCSC awarded one contract to CMCI for containerization needs of the Marine Corps before DSCP developed an acquisition plan for using multiple awards in February 2001. In response to a Request for Proposal, MCSC received eight proposals but determined that one proposal was nonresponsive. During the source selection process, MCSC evaluated seven contract proposal amounts ranging from \$74.1 million to \$121 million. MCSC determined that the proposal from AAR Mobility Systems, who was the recipient of the greatest portion of DSCP delivery orders for specialized shipping containers, was outside the competitive range. AAR Mobility Systems submitted a proposal that was \$38.3 million higher than the proposal submitted by the MCSC award recipient, CMCI— another DSCP award recipient. Wel-Fab, Incorporated, and Boh Environmental, LLC, the remaining two DSCP contract award recipients, did not submit proposals.

TACOM Competitive Acquisition. TACOM also successfully competed and awarded in August 2001, a \$10.4-million contract for one type of specialized

shipping container. TACOM awarded a single contract to CMCI after DSCP awarded a contract to AAR Mobility Systems but before DSCP awarded additional contracts to CMCI; Wel-Fab, Incorporated; and BOH Environmental, LLC. In response to a solicitation, TACOM received five proposals and determined that three of the five proposals were within the competitive range. TACOM evaluated three contract proposal amounts ranging from \$11.1 million to \$13.7 million during the source selection process. TACOM awarded the contract to CMCI, who was the only contractor that submitted proposals to both DSCP and TACOM. TACOM did not receive proposals from the other three contractors: AAR Mobility Systems (the recipient of the greatest portion of DSCP delivery orders); Wel-Fab, Incorporated; and Boh Environmental, LLC.

DSCP Sole-Source Acquisitions. Unlike MCSC and TACOM, DSCP did not successfully achieve competition in either the initial awards or subsequent delivery orders for the four contracts awarded for specialized shipping containers and accessories. DSCP created sole-source situations during the initial award process and when issuing subsequent delivery orders. Because DSCP circumvented competition requirements, DSCP should obtain justification for other than full-and-open competition or modify the contracts to include ordering procedures that each awardee is given a fair opportunity to be considered for each order before exercising options for any of the multiple award contracts. DSCP must comply with both the FAR and the Defense Logistics Agency Directive requirements and obtain approval to award sole-source contracts without full-and-open competition. Furthermore, DSCP must obtain approval from the Senior Procurement Executive of the Defense Logistics Agency for proposed sole-source contracts that exceed \$50 million. In addition, DSCP must comply with FAR requirements for avoiding the use of multiple awards in situations where specialization will lead to orders awarded on a sole-source basis and where fair opportunity cannot be provided for each awardee. DSCP should refrain from issuing multiple award contracts when the acquisition is planned to be awarded only to contractors with unique product lines.

Using Commercial Market Acceptance

DSCP incorrectly used the availability of an item in the commercial market—commonly referred to as commercial market acceptance—as the criterion for evaluating whether items would meet the needs of both the Army and the Air Force. DSCP did not obtain properly developed requirements from the Army and the Air Force. To ensure that containerization needs were met in a cost-efficient manner, DSCP should have identified specific containerization needs of the Army and the Air Force similar to the processes of MCSC and TACOM. The identification process would have allowed DSCP to contract for specific containers instead of awarding multiple sole-source contracts for entire commercial catalogs.

Commercial Market Acceptance. DSCP incorrectly designed the acquisition to use commerciality as the criterion for evaluating whether a container would meet containerization needs of the Army and the Air Force. FAR 11.103 (d), “Market Acceptance,” states, “commercial market acceptance shall not be used as a

criterion to evaluate whether an item meets the Government's requirements." The statement of work DSCP developed states:

All items will be commercial shipping and storage containers, accessories and related items. The list includes items in federal stock class 8145. All items are brand name specific or generic commercial products, which are identified by the manufacturer's commercial item descriptions. All items are to conform to the manufacturer's commercial specifications, quality conformance, quality certifications and identification as defined by the item description for each item.

DSCP should not exclusively use commercial market acceptance for determining whether a specialized shipping container meets the need of the Army and the Air Force.

Stating Requirements. DSCP did not obtain container requirements from the Army or the Air Force nor did they work with requirements personnel to identify containerization needs of the Army and the Air Force. FAR 11.002(a)(2), "Policy," states that agencies shall:

To the maximum extent practicable, ensure that acquisition officials—

(i) State requirements with respect to an acquisition of supplies . . . in terms of—

(A) Functions to be performed;

(B) Performance required; or

(C) Essential physical characteristics.

In January 2001 (1 month before the acquisition was planned), the Under Secretary of Defense for Acquisition and Technology (renamed Acquisition, Technology, and Logistics) reemphasized the importance of developing requirements by issuing a memorandum stating, "... contracting officers and requirements personnel should work together to avoid sole-source situations." DSCP did not include in either the acquisition plan or the solicitation any indication of how the containers would be used, to what conditions the containers would be exposed, any useful life expectations, or the existing requirements. For example, DSCP did not in any of the four contracts awarded for specialized shipping containers request chemical agent resistant coating⁵ as additional protection for specialized shipping containers. The Army identified chemical agent resistant coating in 1983 as the approved coating for all equipment in combat, combat support, and essential ground support equipment categories. In addition, the Army set October 1985 as the mandatory date that any new procurement would include chemical agent resistant coating. With such a requirement, the Army would be responsible for applying chemical agent resistant

⁵Chemical agent resistant coating is a polyurethane paint that provides superior durability, extends service life for containers, provides the container with superior resistance to chemical warfare agent penetration, and simplifies decontamination.

coating to all containers that were acquired through DSCP at an additional expense. Given the many uses for containers, DSCP should have identified both modes of transportation and storage conditions that would provide containerization needs of the Army and the Air Force in a cost-efficient manner.

MCSC-Developed Requirements. MCSC successfully developed requirements before awarding in May 1999, a \$68.5 million contract for one type of specialized shipping container. MCSC developed a Required Operational Capability document, July 17, 1997 (revised), for a family of cargo containers. The Required Operational Capability document details 38 characteristics that are determined to be essential for containers and accessories. Examples of the characteristics are:

- capable of intermodal transport and compatible with shipboard handling and storage;
- maximum gross weight of 10,000 pounds;
- lockable, reusable, and weatherproof;
- compatible with stowage and cargo handling configurations of both U.S. Navy amphibious ships and commercial ships; and
- capable of providing four-way forklift handling.

MCSC also included a statement of need in the Required Operational Capability document recognizing the requirement for containers capable of storing and transporting organizational property and consumable supplies. MCSC used the Required Operational Capability document in conjunction with a Purchase Description, May 7, 1998, for the Quadcon during source selection to ensure that the containerization needs of the Marine Corps were met in a cost-efficient manner.

TACOM Developed Requirements. TACOM successfully developed requirements before awarding in August 2001, a \$10.4 million contract for one type of specialized shipping container. TACOM developed a Performance Purchase Description, July 17, 2000, for the Tricon, which specified materials (including chemical agent resistant coating), design, interface, and support and ownership requirements. Those requirements included, but were not limited to, corrosion control, a restraint system, weight, ratings, and dimensions, and exterior and interior markings. TACOM used the Performance Purchase Description during the source selection process to ensure that the containerization needs of the Army were met in a cost-efficient manner.

DSCP Used Commercial Market Acceptance. Unlike MCSC and TACOM, DSCP did not identify the containerization needs of the Army and the Air Force to develop requirements for specialized shipping containers. Instead, DSCP used commercial market acceptance exclusively and issued sole-source, multiple award contracts for each contractor's commercial catalog. DSCP is required to comply with FAR requirements and avoid using commercial market acceptance as the criterion for evaluating whether an item meets the Government's requirements.

In the future, DSCP should obtain properly developed requirements for containers from the users or work with requirements personnel before awarding contracts to ensure that the containerization needs of the Army and the Air Force are met in the most cost-efficient manner.

Conclusion

DSCP issued four multiple award contracts for specialized shipping containers and accessories that circumvented competition and item evaluation requirements. DSCP improperly used multiple award procedures to issue without competition four sole-source contracts totaling about \$176 million. In addition, DSCP incorrectly used commercial market acceptance as the criterion for evaluating whether an item met the Government's requirements. As a result, DSCP awarded between July 2001 and March 2003, about \$73.4 million in sole-source delivery orders without obtaining approval from the Senior Procurement Executive of the Defense Logistics Agency. In addition, DSCP did not offer any assurance that the containerization needs of the Army and the Air Force were met or that DoD funds were spent in the most cost-efficient manner. Unlike DSCP, MCSC and TACOM successfully identified requirements and created competition when awarding contracts for specialized shipping containers. Therefore, MCSC and TACOM awarded contracts with assurance that the containerization needs of the Marine Corps and the Army were met and that DoD funds were spent in the most cost-efficient manner.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments on urgent and compelling demand for containers, we revised draft Recommendation B.1., while sustaining option provisions, to ensure that the DSCP follows competitive procedures.

B. We recommend that the Commander, Defense Supply Center Philadelphia:

1. Emphasize to contracting officers the need to obtain justification for other than full-and-open competition or modify the contracts to include ordering procedures that each awardee is given a fair opportunity to be considered for each order before exercising options for any of the multiple award contracts.

Management Comments. The Deputy Director for Logistics Operations partially concurred stating that DSCP took action to eliminate a noncompetitive environment by awarding three additional multiple award schedule contracts between 6 and 18 months after awarding one sole-source contract for unit-owned containers. The deputy director also stated that DSCP would exercise the options in the contracts because of the significant increase in demand for containers

following September 11 and not exercising the options would pose significant risk of disrupting the supply stream of these containers.

Audit Response. The DLA comments are partially responsive. Although DSCP stated that it awarded additional multiple award schedule contracts to eliminate the noncompetitive environment for acquiring containers, none of the contracts was awarded using competitive procedures. In conducting procurements, agencies shall obtain full-and-open competition through the use of competitive procedures in accordance with section 2304, title 10, United States Code, (10 U.S.C. 2304) and FAR Part 6, "Competition Requirements." 10 U.S.C. 2302 (2) states:

(2) The term "competitive procedures" means, procedures under which the head of an agency enters into a contract pursuant to full and open competition. Such term also includes –

(C) the procedures established by the Administrator of General Services for the multiple award schedule program of the General Services Administration if –

(i) participation in the program has been open to all responsible sources; and

(ii) orders and contracts under such program result in the lowest overall cost alternative to meet the needs of the United States.

Because each of the four contractors was awarded a sole-source contract for their unique product line, and the Administrator of General Services Administration did not establish these multiple award schedule contracts under FAR Part 38, "Federal Supply Schedule Program," we disagree that DSCP eliminated the noncompetitive environment for acquiring containers. In addition, DSCP did not establish a requirement in its multiple award schedule contracts to compete delivery orders among the awardees. FAR 16.505 (b), "Orders under Multiple Award Contracts," states that the contracting officer must develop ordering procedures to ensure that each awardee is given a fair opportunity to be considered for each order. These procedures must also be included in the solicitation and the contract. If DSCP plans to exercise the option in the contracts under unusual and compelling urgency, FAR 6.3, "Other Than Full and Open Competition," provides provisions for this and the report did not take exception to this requirement.

The intent of our recommendation was to ensure that DSCP successfully competes and awards container contracts using competitive procedures for various types of specialized shipping containers. We revised our recommendation to clarify our point that the DSCP contracting officer needs to award future container contracts using competitive procedures in accordance with 10 U.S.C. and FAR Part 6. We request that DLA provide comments on the revised recommendation.

2. Establish controls that ensure contracting officers obtain justifications from the Senior Procurement Executive of the Defense Logistics Agency for other than full-and-open competition for proposed sole-source contracts that exceed \$50 million in accordance with Defense Logistics Agency Directive 6.304(a)(4)(A)(1)(90), “Approval of the Justification.”

Management Comments. The Deputy Director for Logistics Operations concurred stating that DLA has revised and implemented the Integrated Acquisition Review Board process in Defense Logistics Acquisition Directive 7.104-90 to ensure proper review and approval of contracting initiatives and application of internal controls over the procurement process. DLA also plans to establish similar Boards at its Inventory Control Points. In addition, the Agency is clarifying its policy and procedures for multiple award schedule contracts to field activities.

3. Establish procedures that ensure contracting officers comply with Federal Acquisition Regulation 16.504(c)(ii)(A), “Multiple Award Preference,” which requires that contracting officers avoid using multiple award contracts in sole-source situations.

Management Comments. The Deputy Director for Logistics Operations concurred. DLA agreed that, under FAR 16.5, multiple award contracts should not be sole source. DLA stated that FAR 16.5 should not have been cited in this acquisition. DSCP intended to continue to use multiple award schedule contracts, which are not directly governed by FAR 16.5. DLA is revising its guidance and procedures to reemphasize proper use of multiple award schedule contracts, which will be completed within the next 60 days.

4. Direct that contracting officers discontinue using commercial market acceptance as the criterion for evaluating whether a specialized shipping container will meet the containerization needs of the Army and the Air Force as Federal Acquisition Regulation 11.103 (d), “Market Acceptance,” requires and obtain requirements from the Army and the Air Force.

Management Comments. The Deputy Director for Logistics Operations concurred in part stating that DSCP did not only use commercial market acceptance established in FAR 11.103, but researched Army and Air Force requirements as part of the acquisition planning process. DSCP research determined that the Army and the Air Force required many container types and the containers in question were satisfactorily supplied to the Government under both current and previous contracts. The deputy director also stated that 10 U.S.C. 2377 (b), “Preference for Acquisition of Commercial Item,” requires that procurement officials acquire commercial items to the maximum extent practical. The comments indicated that traditional procurement processes that acquire a single container type in a long-term arrangement deny the military timely access to product improvements and enhancements driven by commercial market forces. Although the MCSC and the TACOM awarded a single container type of each of their contracts, these types of contract arrangements do not fully satisfy the overall requirements of the customers for containers.

Audit Response. The DLA comments were only partially responsive. The DSCP did not adequately perform market research of specialized shipping containers for Army and Air Force containerization programs. For example, while performing research, DSCP failed to advise Air Force Bare Base officials that their requirement for a \$10,000 ISU container could be better satisfied by a \$2,000-\$4,000 Quadcon or Tricon. Also, DSCP research efforts failed to incorporate in its container solicitation the 1983 Army requirement for a chemical agent resistant coating to be used on combat support containers.

We do not agree with the comment that MCSC and TACOM contract arrangements do not fully satisfy their overall requirements. TACOM currently is in the process of awarding a contract to purchase about 45,000 Quadcons and Tricons to satisfy Army requirements on a single contract while using competitive procedures in accordance with FAR Part 6. This report showed that both MCSC and TACOM have successfully used a competitive source selection process and that this contract method was more effective and efficient than the DLA contract method. We request that DLA reconsider its position and provide additional comments on the recommendation.

Appendix A. Scope and Methodology

We visited individuals at AAR Mobility Systems; SFA, Incorporated; and CMCI. In addition, we visited or contacted 36 organizations in DoD, including the Office of the Secretary of Defense, the Army, the Navy, the Air Force, the Marine Corps, and other DoD organizations that procure, manage, or use unit-owned containers.

We interviewed DoD personnel to obtain an understanding of the management controls for unit-owned containers. We reviewed property accountability records and performed physical inventories for 18 Army units (company, group, battalion, or brigade), and 35 Air Force units (flight, squadron, or group). We also reviewed manufacturer descriptions for Quadcons, Tricons, and ISU containers. Defense Supply Center Philadelphia data showed that for the 18-month period beginning October 2001 through March 2003, the Army and the Air Force requisitioned from DSCP approximately \$52.1 million of unit-owned containers and accessories, which purchased the containers from AAR Mobility Systems and CMCI. Of that \$52.1 million, approximately \$49.6 million (approximately 95 percent) was for requisitions of ISU containers and accessories.

We reviewed four contracts with a total estimated value of approximately \$176 million that DSCP awarded from July 2001 through September 2002, using multiple award procedures to AAR Mobility Systems; CMCI; Wel-Fab, Incorporated; and Boh Environmental, LLC. The Haystack Online for Windows database showed approximately \$73.4 million in delivery orders between July 6, 2001, and March 31, 2003, on the four contracts. Delivery orders issued sole source to AAR Mobility Systems were approximately \$63.5 million (approximately 87 percent) of the \$73.4 million. We specifically reviewed the acquisition plan, solicitation, and other documents within the contract files of the four contracts. In addition, we reviewed the contract files of the Marine Corps as well as the contracts TACOM awarded to CMCI, M67854-99-D-3047 and DAAE07-01-D-T049, respectively. The document review included, but was not limited to, acquisition plans, a procurement request and solicitation, purchase descriptions, and source selection plans.

We performed this audit from July 2002 through December 2003 in accordance with generally accepted government auditing standards. Our scope was limited in that we did not review the Navy's processes for acquisition or management of unit-owned containers because the Naval Audit Service was conducting a review on the Navy container program.

Use of Computer-Processed Data. We used computer-processed data from the Haystack Online for Windows database to determine the dollar value of DSCP delivery orders issued to AAR Mobility Systems (Contract SP0500-01-D-0155); CMCI (Contract SP0500-02-D-0016); Wel-Fab, Incorporated (Contract SP0500-02-D-0036); and Boh Environmental, LLC (Contract SP0500-02-D-0116) for FY 2001, FY 2002, and the first half of FY 2003. Although we did not perform a formal reliability assessment of the computer-processed data from the Haystack Online for Windows database, we determined that the award dates, quantity, and dollar values in the computer-processed data generally coincided with information we confirmed with DSCP and units within the Army and the Air

Force. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in this report.

We also used computer-processed data DSCP provided to determine the quantity and dollar value of containers the Army and the Air Force requisitioned through DSCP contracts for FY 2002 and the first half of FY 2003. Although we did not perform a formal reliability assessment of the computer-processed data DSCP provided, we determined that the quantities and amounts in the computer-processed data generally agreed with the information found in Haystacks Online for Windows. In addition, units within the Army and the Air Force confirmed that the information generally agreed with requisitions they had placed. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD high-risk areas identified as, “Improve processes and controls to reduce contract risk” and “Improve quality of logistics support.”

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed Army and Air Force management controls over the acquisition and management of unit-owned containers. In addition, we reviewed the adequacy of DSCP management controls over obtaining approvals of justifications for other than full-and-open competition on sole-source acquisitions. Management did not have self-evaluations applicable to these controls.

Adequacy of Management Controls. We identified material management control weaknesses for the Army and the Air Force as defined by DoD Instruction 5010.40. Army and Air Force management controls for acquisition and management of unit-owned containers were not effective or efficient. Recommendations A.1. and A.2., if implemented, will correct the identified weaknesses and could result in \$137.4 million of cost avoidance. We also identified material management control weaknesses for DSCP as defined by DoD Instruction 5010.40. DSCP management controls for obtaining approvals of justifications for other than full-and-open competition in sole-source acquisitions of specialized shipping containers were not adequate for ensuring compliance with the Defense Logistics Agency Directive. Recommendation B.2., if implemented, will correct the identified weakness and ensure that DSCP complies with FAR requirements on sole-source acquisitions that exceed \$50 million.

Adequacy of Management's Self-Evaluation. We did not assess the adequacy of management's self-evaluation because Army, Air Force, and DSCP officials did not identify the acquisition and management of unit-owned containers as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued one report discussing the commercial containers and three reports discussing multiple award contracts. Unrestricted IG DoD reports can be accessed over the Internet at <http://www.dodig.osd.mil/audits/reports>.

IG DoD

IG DoD Report No. D-2004-15, "Contracts for Professional, Administrative, and Management Support Services," October 30, 2003

IG DoD Report No. D-2001-189, "Multiple Award Contracts for Services," September 30, 2001

IG DoD Report No. D-2001-149, "Coordinating and Tracking of Commercial Containers in Korea," June 22, 2001

IG DoD Report No. 99-116, "DoD Use of Multiple Award Task Order Contracts," April 2, 1999

Appendix B. Comparison of Unit-Owned Containers

Army and Air Force units commonly used three types unit-owned containers. Of the unit-owned containers the Army and Air Force owned, the ISU 90 is the most widely used container. Army infantry units generally use Quadcons and Army support units generally use Tricons for systems such as water and petroleum. As shown in the chart below, the three types of unit-owned containers have similar airlift capabilities but vary in size and cost. In addition, the sea and rail capabilities of the unit-owned containers differ.

Comparison of Unit-Owned Containers			
Characteristics	Quadcon Container	Tricon Container	ISU 90 Container
Length (inches)	96	96	108
Width (inches)	57.5	77.5	88
Height (inches)	82	96	90
Cubic Feet	215	346	399
Cargo Capacity (pounds)	9,436	14,900	10,000
Airlift Mode	Yes	Yes	Yes
Sea Certification	Yes	Yes	No
Rail Certification	Yes	Yes	No
Helicopter Slingable	Yes	Yes	Yes
Approximate Cost	\$1,605	\$3,000	\$9,140

Appendix C. Potential Cost Avoidance

Based on the acquisition and management practices of the Army and the Air Force from October 1, 2001, through March 31, 2003, if the Army and the Air Force purchased Quadcons instead of accessorized ISU containers to satisfy unit-owned container requirements, we calculate cost avoidance of about \$137.4 million, or \$87.8 million and \$49.6 million, respectively, over the next 6 years.

Calculation of Future Accessorized ISU Purchases					
	Quantities		Average Unit Cost ¹	Calculation	
	18-Month	6-Year		18-Month	6-Year
Army	2,788	11,152	\$11,114	\$30,985,677	\$123,942,708
Air Force	1,920	7,680	9,705	18,633,049	74,532,196
Total	4,708	18,832		\$49,618,726	\$198,474,904

Calculation of Future Quadcon Purchases				
	Quantities ²		Calculations ³	
	18-Month	6-Year	18-Month	6-Year
Army	5,150	20,600	\$ 9,038,250	\$36,153,000
Air Force	3,547	14,187	6,224,985	24,898,185
Total	8,697	34,787	\$15,263,235	\$61,051,185

Calculation of Cost Avoidance						
	ISU		Quadcon		Cost Avoidance	
	18-Month	6-Year	18-Month	6-Year	18-Month	6-Year
Army	\$30,985,677	\$123,942,708	\$ 9,038,250	\$36,153,000	\$21,947,427	\$87,789,708
Air Force	18,633,049	74,532,196	6,224,985	24,898,185	12,408,064	49,634,011
Total	\$49,618,726	\$198,474,904	\$15,263,235	\$61,051,185	\$34,355,491	\$137,423,719

¹The average unit cost of an accessorized ISU container for the Army and the Air Force was found by dividing the total cost spent by the Army and the Air Force on ISU containers and accessories by the quantity of containers each bought.

²The internal volume of one ISU container is 399 cubic feet whereas the internal volume of one Quadcon is 216 cubic feet. Therefore, quantities of Quadcon purchases were calculated by multiplying ISU purchase quantities by 399 and dividing the result by 216.

³The current Marine Corps contract price for Quadcons purchased in large volumes is \$1,755.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Assistant Deputy Under Secretary of Defense (Logistics and Materiel Readiness)
(Transportation Policy)
Director, Acquisition Initiatives
Director, Defense Procurement and Acquisition Policy
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
Deputy Chief of Staff for Logistics
Auditor General, Department of the Army
Commander, Army Forces Command
Commander, Fort Bragg
Commander, Fort Campbell
Commander, Army Tank-automotive and Armaments Command

Department of the Navy

Naval Inspector General
Inspector General of the Marine Corps
Auditor General, Department of the Navy
Commander, Marine Corps Systems Command

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Deputy Chief of Staff for Installation and Logistics
Commander, Air Combat Command
Commander, Davis-Monthan Air Force Base
Commander, Holloman Air Force Base
Commander, Nellis Air Force Base
Commander, Air Force Materiel Command
Commander, Robins Air Force Base

Unified Commands

Commander, U.S. Transportation Command
Commander, Air Mobility Command
Commander, Surface Deployment and Distribution Command
Commander, U.S. Special Operations Command
Commander, U.S. Army Special Operations Command
Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Logistics Agency
Commander, Defense Supply Center Philadelphia
Director, Defense Contract Management Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500

DALO-FPT

18 March 2004


MEMORANDUM THRU DEPUTY CHIEF OF STAFF, G-4, 500 ARMY PENTAGON,
WASHINGTON DC 20310-0500

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE 400 ARMY NAVY
DRIVE, ARLINGTON, VIRGINIA 22202-4704

SUBJECT: DODIG Draft Report on Acquisition and Management of Specialized
Shipping and Unit-Owned Containers and Related Accessories

1. The G-4 concurs there is a need for more efficient oversight of this decentralized system, to include tighter controls of the buying and management of containers. (See comments at enclosure)
2. A Congressionally directed inventory was conducted in 2002. During the inventory review it was discovered the Army had a systemic problem in managing Army owned containers. As a result the Army Intermodal Distribution and Platform Management Office (AIDPMO) was established, June 2003 by HQDA, G-4 as the Army's Single point of contact for management of Army owned containers and ISO Flatracks (C&F).
3. The Army currently has AIDPMO conducting an inventory at the request of USTRANSCOM to gather data from MACOM units and organizations on container status worldwide. This is the first phase of Army's plan to inventory and account for all C&F within the Army. The second phase will place C&F on unit property books IAW AR 735.5 for management, accountability, and inventory control.
4. The shortfalls of the Army's C&F program are currently under review by the G-4, USTRANSCOM and a newly established Tiger Team (TT) under the Surface Deployment and Distribution Command Leadership. The TT review is ongoing.
5. The Army is in the process of providing further guidance and direction to the MACOM's. Request the Final Report be provided to the Army's Deputy Chief of Staff, G-4, who will forward the report/findings and requirements down to the MACOM's for formal staffing. The appropriate MACOM comments have been incorporated into the draft report. Point of contact for this action is Mr. Donald Stump, (703) 614-4027.

Encl


WILLIAM P. NEAL
Director, Force Projection
and Distribution

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Army Response to DOD IG Draft Audit Report D2002CH-0158, Acquisition and Management of Specialized Shipping and Unit-Owned Containers and Related Accessories

Recommendations by the DODIG to the Army Deputy Chief of Staff for Logistics, G4:

a. Establish a centralized program similar to the Marine Corps for acquiring and managing unit-owned containers.

Response. Concur in principle. There is a need for more efficient oversight of a decentralized system, and a need for tighter controls on the buying and management of Army owned containers. Army control of the containers are lacking at the Major Command level, caused by a decentralized funding and management program that must be addressed as a resource management issue. In June 2003, Army established the Army Intermodal and Distribution Platform Management Office (AIDPMO) to provide management control for Army owned and leased containers. The management responsibilities of AIDPMO's mission do not presently include accountability of unit-owned containers. G4 is currently reviewing with AIDPMO and the MACOM's the management of unit-owned containers and will within the next 24 months determine the management procedures. AIDPMO will utilize the data received to determine resource requirements associated with the centralized management and control of the ISU containers. Army considers this item an ongoing action.

b. Use as a basis for establishing allowances for Army units as the quadruple container requirements that the Military Management Command (now, Surface Deployment and Distribution Command (SDDC)) recommends.

Response. Non-concur, but it's still an issue. The Army G4 is not planning on establishing allowances for Army unit's use of the quadruple container requirements from SDDC. The Army G4 is in the process of reviewing the policy of unit-owned container requirements recommended by SDDC & MACOM's. However, the G-4 recommends policy to the MACOM's and does not direct the organizations and units requirements for containers or types, since the units are built by force structure, i.e. TOES and MTOES, etc., with policy and doctrine provided from higher level for guidance. Upon completion of this review, recommendations/policy will be made to the MACOMs for establishing tighter control of buying and managing units' container requirements allowances. However, G-4 has directed AIDPMO to currently conduct an inventory of all Army owned containers to include unit-owned containers. This should be concluded by 30 Sept 04. The Army G4 is reviewing the use of the QUADCONs -TRICONs (Q's & T's) at unit levels, but the management requirement will still be controlled at MACOM level, with policy provided where appropriate requirements exists. The G4 policy is the use and management of 20' & 40' containers based on common use requirements and the establishing of container pools, which is not practical using Q's & T's. There is currently an ongoing review of this policy.

c. Establish and implement procedures for collecting and analyzing data that will determine the effectiveness of containers used in the Army's centralized program for unit-owned containers.

Response. Concur. The Army has established the AIDPMO to review and establish implementing procedures for inventorying, collecting, and analyzing data to determine the amount/requirements and effectiveness/condition readiness of containers used by Army units. The Army initiated a worldwide inventory of all distribution platform assets on 5 Dec 03. Inventory results and reconciliation of inventories will assist the Army in determining the efficiency of the containers utilized within the Army. Policies and procedures for the management, control, accountability and reporting of assets are being developed and will be published in the revised Army Regulation (AR) 56-4 and AR 735.5. This is currently an ongoing action, with a projected completion date of 30 Dec 04 in regards to AR 56-4 and an update review of AR 735-6, which relates to accountability, and the reporting of items in the property book.

d. Establish procedures requiring that the Army conduct annual inventories of unit-owned containers as well as properly account for unit-owned containers on property records.

Response. Non-concur. The Army is in the process of reviewing and developing policy procedures to incorporate guidance on property accountability that will reduce the threshold to \$2,500. AIDPMO is also working with Army Tank-automotive and Armaments Command, DLA, and SDDC to establish procurement, accountability and reporting procedures on all Army unit-owned containers that would require inventories every two years. This is in accordance with AR735.5 for items managed by the property book. The requirement is being reviewed to place C&F in the property book, which would change the requirement for an annual inventory. The Directives will be issued by 30 Sept 04.

e. Army cost avoidance of \$87.8 millions over the next 6-year period.

Response. The DOD IG report* shows that it would be cost-beneficial to satisfy Army units' container requirements using Quadcons or Tricons instead of ISU containers. This is under reviewed. We are unable at this time to predict the quantity of containers that will be purchased in the future, but based on the quantity of containers purchased in an 18-month period, the potential cost avoidance could be in the millions over the next 6 years. However, AIDPMO will contact the Army Cost and Economic Analysis Center to verify the cost avoidance calculations.

***See Appendix C, Potential Cost Avoidance, if there are questions.**

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

18 FEB 2004

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE
OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

FROM: HQ USAF/IL

SUBJECT: DOD IG Draft Report, Acquisition and Management of Specialized Shipping and
Unit-Owned Containers and Related Accessories (Project No. D2002CH-0158)

This is in response to your request for management comments on subject report. The Air Force concurs with two IG recommendations and nonconcur with two.

We do not concur with recommendation A.2.a for centralizing AF management of shipping containers. Air Force transferred central management of containers from Warner Robins Air Logistics Center to the Defense Logistics Agency (DLA) and we do not recommend recentralizing. However, we do concur with the recommendation A.2.b, identifying the type of suitable unit-owned containers. We will advise MAJCOMs of other cost effective containers available through DLA. We do not concur with the recommendation A.2.c, establishing and implementing procedures for collecting and analyzing data that will determine the effectiveness of containers used in the Air Force's centralized program for unit-owned containers. The Air Force does not have a centralized program nor do we require one. DLA is the managing activity for shipping containers and should collect and analyze product data. Finally, we do concur with the recommendation A.2.d, requiring Air Force units to fully inventory and account for shipping containers. The Air Staff will advise all units via message of the mandatory DoD accountability requirements. In addition to the recommendations offered in the report, the IG highlighted the potential saving of \$49.6M, if the Air Force used a less expensive shipping container versus the preferred Internal Slingable Unit (ISU) container (Appendix C). We do not concur with the reported IG calculated cost avoidance of \$49.6M. We feel the cost figures were based on a period of time categorized by higher than normal wartime operational demands. However, after reviewing the study, we agree there may be savings of up to \$4.9M within our Harvest Eagle program and thus warrants further review. We consider this report closed.

If you do not agree, please advise us. My point of contact is Mr. Dennis Mocco, AF/ILGP, @ 695-9527.

Susan A. O'Neal

SUSAN A. O'NEAL
Acting DCS/Installations & Logistics

Attachment:
Detailed Audit Response
cc: SAF/FMPF

Air Force Response to DOD IG Draft Audit Report D2002CH-0158, Acquisition and Management of Specialized Shipping and Unit-Owned Containers and Related Accessories

Recommendation A.2. DoD recommends that the Air Force Deputy Chief of Staff for Installation and Logistics:

a. Establish a centralized program similar to the Marine Corps for acquiring and maintaining unit-owned containers.

Response: Nonconcur. In the late 1990's, the Air Force transitioned from a centralized management (Warner Robins Air Logistics Center) program for shipping containers to a decentralized management (Air Force units) program. As our deploying units are in the best position to plan, program, and budget their requirements, the Air Force will continue to manage shipping containers at the subordinate unit level. Policy and procedures are in place for Air Force units to requisition directly from the Defense Logistics Agency (DLA) using their O&M funds. We consider this item closed.

b. Identify the type of unit-owned containers that meet unit requirements.

Response: Concur. Our deploying units fully understand their shipping container requirements as they pertain to their operational mission plans. As the purchasing authority is at the unit level, they are authorized to purchase those types of containers that meet their mission requirements. To ensure our units are aware of other types of shipping containers, the Air Staff will advise our Major Commands of the availability of other less expensive shipping containers managed by DLA. We consider this item closed.

c. Establish and implement procedures for collecting and analyzing data that will determine the effectiveness of containers used in the Air Force's centralized program for unit-owned containers.

Response: Nonconcur. The Air Force does not have a centralized program for unit-owned containers. This function was transferred from Warner Robins Air Logistics Center to the Defense Supply Center Philadelphia (DSCP) around 1996. The Air Force has procedures in place that facilitate coordination with the Defense Logistics Agency (Source of Supply) on issues relating to product effectiveness. Air Force units communicate directly with the DSCP on concerns specifically relating to shipping containers. DSCP is the managing office and has the resources to collect and analyze data. We consider this item closed.

d. Establish procedures requiring that the Air Force conduct annual inventories of unit-owned containers as well as properly account for unit-owned containers on property records.

Response: Concur. The Air Force through its Major Commands (MAJCOMs) has procedures in place, which addresses inventory and accountability requirements. The ISU container has an Air Force supply expendable, repairable, recoverable code (ERRC) NF2 assigned. This code indicates reparability, condemnation and if an item is to be accounted for on property records or not. The ISU container costs approximately \$8,175 and by DoD regulations they must be

Revised
Pages i, 4,
10, 12, and
14

Revised
Pages 10,
and 15

accounted for on property records. The Air Staff will advise units to account for shipping containers within the Air Force Equipment Management System (AFEMS). We consider this item closed.

Appendix C. Potential Cost Avoidance

Air Force cost avoidance calculations of \$49,634,011 over a 6-year period.

Response: Nonconcur. The base line for quantities ordered over the 18-month period was exceptionally high due to the surge in war planning requirements. We do not anticipate this same amount of requirements over the next 6 years. The calculations also took into account a formula that equates to a one-for-one replacement of the ISU with the Quadcon container. Although we agree that the Quadcon in general can be used by the Air Force for the Harvest Eagle (Bare Base Program) package, the requirement for rapid deployment and logistical support is the primary reason AF units attest that the ISU container is the most effective airlift container to meet this requirement. The Air Force airlifts over 95% of its supplies and materials. Use of the ISU containers, which have a lesser tare weight, more load capacity and is easier to maneuver during on-load and off-load operations versus the Quadcons, allows maximum and cost effective payloads. Also, the required delivery time (based on mission requirements) plus the shipping means (airlift versus sealift) will determine the type of container required. Due to the Air Force's expeditionary movement that is dependent on much stringent time constraints than the Army or Marines, the ISU container is best suited and cost effective for airlift purposes. These are considerations that were not factored in the report's cost avoidance calculations. Our cost savings calculations of \$4.9M versus \$49.6M are based on an estimated 10% replacement factor (from base line quantities) for normal wear and tear and also for the use of Quadcon containers in the Harvest Eagle packages over a 6-year period. We consider this item closed.

Point of Contact: Mr Dennis Mocorro, AF/ILGP, 695-9527, 5 Feb 2004

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FORT BELVOIR, VIRGINIA 22060-6221

MAY 19 2004

IN REPLY
REFER TO J-33

MEMORANDUM FOR DEPARTMENT OF DEFENSE DEPUTY INSPECTOR GENERAL

SUBJECT: Defense Logistics Agency Response to the Draft of a Proposed Report – Management of Specialized Container and Unit-Owned and Related Accessories (Project No. D2002CH-0158)

This letter is to inform you that DLA has completed its response to the DODIG's Draft Audit of Management of Specialized Shipping Containers and Unit-Owned and Related Accessories (Project No. D2202CH-0158). Please replace our response dated February 26, 2004 in its entirety with the attached memorandum.

If you have any questions, please contact Charmaine Camper at DSN 427-1478.

CLAUDIA S. KNOTT
Deputy Director
Logistics Operations

Attachment

Federal Recycling Program



Printed on Recycled Paper

SUBJECT: Audit of Management of Specialized Shipping Containers and Unit-Owned and Related Accessories (Project No. D2002CH-0158)

Recommendations:

1. Emphasize to contracting officers the need to not exercise options for any of the multiple award contracts for specialized shipping containers and when resoliciting use a source selection process similar to that of the Marine Corps Systems Command and the Army Tank-Automotive and Armaments Command.

Response: Concur in part with the IG's critique of the multiple award contracts. DSCP intended to award multiple award schedule competitive contracts, but DSCP did not initially create the intended competitive environment because its first contract award allowed the first contractor to remain the sole vendor for a period of about six months. DSCP subsequently awarded additional contracts, thus eliminating the noncompetitive situation and bringing the container initiative into compliance with required competitive procedures. DSCP intends to exercise the options in these contracts because the conditions specified in the FAR/DFARS for option exercise are met and because of the military's drastically increased demands for these containers following September 11. Not exercising the options on these existing contracts would pose a significant risk of disrupting the supply stream of these items to the military. It is imperative that DSCP exercise the options on these contracts in order to continue support to deployed troops overseas.

2. Establish controls that ensure contracting officers obtain justifications from the Senior Procurement Executive of the Defense Logistics Agency for other than full and open competition for proposed sole-source contracts that exceed \$50 million in accordance with Defense Logistics Agency Directive 6.304(a)(4)(A)(1)(90), "Approval of the Justification."

Response: Concur. The Agency concurs that other than full and open competition procurements require a justification approved at a specified level. In order to ensure proper review and approval of contracting initiatives and ensure proper application of internal controls over procurement process, the Agency has revised and implemented the Integrated Acquisition Review Board process in Defense Logistics Acquisition Directive (DLAD) 7.104-90, and this is paralleled by corresponding Boards at the Agency's Inventory Control Points (ICPs). In addition, the Agency is currently revising its policy and procedure for schedule contracting to ensure clear guidance is issued to the field activities. This guidance will require the contracting activity to compare the customer's requirement to products currently on contract under DLA's multiple award schedules to determine whether they offer similar product alternatives to the customer. If there is no comparable product listed, the contracting officer will perform market research, in conjunction with the customer, to determine the availability of similar products from other vendors. If none are available or meet the specific needs of the customer, such that they cannot be added under the multiple award schedule, then a Justification for Other Than Full and Open Competition will be prepared and approved in accordance with applicable regulation to support the procurement of that requirement.

3. Establish procedures that ensure contracting officers comply with Federal Acquisition Regulation 16.504(c)(ii)(A), Multiple Award Preference, which requires that contracting officers avoid using multiple award contracts in sole-source situations.

Response: Concur. The Agency agrees that FAR 16.5 multiple award contracts should not be sole source and should not have been cited in this acquisition. DSCP intended to use multiple award schedules, which are not directly governed by FAR 16.5. The Agency is currently revising its guidance and procedures to reemphasize proper use of multiple award schedules. We estimate this effort will be

completed within the next sixty (60) days. In addition, as part of a process improvement, DSCP will establish a system of documentation/justification of product selection by its customers, particularly by those customers who specify a specific brand or model of specialized container. Such justifications will be kept on file for review and analysis. DSCP will formulate a "Customer Instruction" to be published on its website for container customers to follow. We estimate the system of documentation/justification and the "Customer Instruction" will be completed by May 28, 2004.

4. Direct that contracting officers discontinue using commercial market acceptance as the criterion for evaluating whether a specialized shipping container will meet the containerization needs of the Army and the Air Force as Federal Acquisition Regulation 11.103(d), "Market Acceptance," requires and obtain requirements from the Army and the Air Force.

Response: Concur in part. DSCP did use "commercial market acceptance" established in FAR 11.103 as one of the criterion applicable to the container initiative. However, DSCP did not use market acceptance as the sole criterion for this acquisition. DSCP researched the Army and Air Force requirements as part of the acquisition planning process, and determined that the Services required many container types and configurations to satisfy a variety of needs. DSCP's market research also revealed that the containers in question had been satisfactorily supplied to the Government under both the current and previous contracts. 10 U.S.C. 2377(b), "Preference for Acquisition of Commercial Items," requires that procurement officials acquire commercial items to the maximum extent practicable. Traditional procurement processes that acquire a single container type in a long-term arrangement deny the military timely access to product improvements and enhancements driven by commercial market forces.

DSCP initiated action to ensure its customers are provided information as to the products available, and that customers provide DSCP information reflecting that a competitive best value decision is made when ordering. DSCP will facilitate its customers' decision process by discussing future requirements to ensure that they fully understand the product options available to them. DSCP will also add information on its web site to give additional information for customers to use in making their best value decisions.

Although the Marine Corps Systems Command (MCSC) and Tank-Automotive and Armaments Command (TACOM) awarded a single container type on each of their contracts, these type of contract arrangements do not fully satisfy the customers' overall requirements for containers. This is demonstrated by DSCP's continued increased sales of a variety of containers, some of which are not covered by the MCSC and TACOM contracts.

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